

Massachusetts AFL-CIO

Public Employees and OPEB Liabilities



The Special Commission to Investigate and Study Retiree Healthcare and Other Non-Pension Benefit

Presenter: Nancy McGovern, Legislative Agent
AFSCME – Council 93

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Overview

1. The Commonwealth has already aggressively enacted reforms to lower healthcare costs - We must give these reforms time to work
2. Public Employee Retirees cannot afford additional out-of-pocket healthcare costs
3. Retiree health insurance is an investment in our public employees that we must maintain



The Massachusetts AFL-CIO is Concerned About Retiree Healthcare

- We represent nearly 400,000 working families and retirees across the Commonwealth
 - Membership spans occupations including, electricians, nurses, iron workers, utility workers, teachers, and other public employees.
 - We will partner with state policymakers to address OPEB liabilities

The Massachusetts AFL-CIO is Concerned About Retiree Healthcare

- AFL-CIO assembled a coalition of public employee unions to study OPEB:
 - American Federation of State, County, and Municipal Employees
 - American Federation of Teachers Massachusetts
 - Professional Fire Fighters of Massachusetts
 - National Association of Government Employees
 - State Police Association of Massachusetts
 - Service Employees International Union Local 888
 - Laborers International Union of North America
 - United Steelworkers
 - Office and Professional Employees International Union
 - Massachusetts Teachers Association
 - Massachusetts Organization of Engineers and Scientists
 - Massachusetts Police Association
 - Massachusetts Coalition of Police



The Massachusetts AFL-CIO is Concerned About Retiree Healthcare

- Coalition has hired Boston Benefit Partners as our local advisor and research partner
- Coalition has engaged national advisors, including actuaries and healthcare experts, to fully understand OPEB and the impact to our members and the Commonwealth



High Healthcare Costs are a Problem for Most Massachusetts Retirees

- Many retirees will not be able to live on the income they will have in retirement
- Escalating costs to healthcare and housing along with weakening pension incomes and increased longevity is eroding the financial security for future retirees in Massachusetts¹

1. Brandeis University, "Living Longer on Less in Massachusetts" March 2009

High Healthcare Costs are a Problem for Most Massachusetts Retirees

- In 2006, Massachusetts made a commitment to provide insurance to all residents, including retirees
- A 65-year old couple retiring in 2012 without a retiree medical plan will spend on average **\$240,000** to cover medical expenses in retirement¹
- 62% of all personal bankruptcies are caused by healthcare expenses – 70% of these are people with health insurance²

1. Fidelity Investments, Employee Benefit Advisor, May 2012

2. American Journal of Medicine, 2009



Public Employees and Retiree Health Insurance

- Most public employees dedicate full careers to the service of our citizens
- Pension and Benefits are a key to attracting and retaining a quality workforce
- Retiree health insurance is an obligation that we must continue as an investment in those who dedicate their lives to teaching our children, protecting lives, and providing services to the taxpayers

Public Employees and Retiree Health Insurance

- Public Employee Retirees contribute 10% - 50% of their health insurance premiums¹
- Public Employee Retirees pay on average \$100 per month, per person for Medicare Part-B
- Public Employee Retirees are already paying increased copayments, deductibles, and drug costs

1. State Retirees contribute up to 20% depending on retirement date. Municipal retiree contributions vary by locality and can be as much 50%.

Pre-65 Retirees Require the Same Protection as Medicare Eligible Retirees

- Pension policies are designed to replace older public safety workers (fire, police, corrections) with a younger, healthier workforce
- Many have reached full retirement
- Includes disabled public sector workers
- Some retire early, on reduced pensions, to take care of ailing spouses or other family members



Pre-65 retirees require the same Protection as Medicare Eligible Retirees

- People age 55-65 have high healthcare costs
- If future reform cuts benefits, pre-65 retirees will be forced to purchase more expensive insurance from the *Health Connector*
- Finding new, permanent employment with benefits is extremely difficult for a person over 55

Problems and Solutions

- The Problem Is High Healthcare Costs
 - Massachusetts has some of the highest healthcare costs in the country
- The Problem Is Not “exceedingly generous retiree health care benefits”¹
 - Reforms such as the Municipal Health Insurance Reform Act have aligned benefits with those of large employers

1. Mass. Taxpayers Foundation, “The Crushing Burden of Municipal Retiree Health Care Liabilities”, January 2012

Problems and Solutions

- The Solution Is Not Additional Cost Shifting to Retirees
- The Real Solution Is Lower Healthcare Costs
 - We need payment reform so that the same medical procedure does not cost two to three times more in Boston than it does in Natick
 - We need more focus on Wellness and Disease Management to promote healthier lifestyles

Addressing OPEB Liabilities

- Labor has supported reforms that will reduce the overall OPEB liability:
 - **Municipal Plan Design** – Lowers premium costs on both employee and retiree plans
 - **Mandatory Medicare** – Requires enrollment in Medicare upon reaching eligibility
 - **Pension Changes** – Narrows the gap between retirement and Medicare eligibility
- We do not yet know the extent of how these reforms will impact future OPEB liabilities

Addressing OPEB Liabilities

- There are other reforms that will further reduce OPEB liabilities
 - House/Senate payment reform legislation
 - Insurance carriers efforts to lower costs
 - Example: BCBSMA's Alternative Quality Contracting
- Labor will continue to support these and other innovative approaches to cost control

Our Conclusion

The Commonwealth is making a good faith effort to quantify and address its OPEB liabilities

1. The Commonwealth has already aggressively enacted reforms to lower healthcare costs - We must give these reforms time to work
2. Public Employee Retirees cannot afford additional out-of-pocket healthcare costs
3. Retiree health insurance is an investment in our public employees that we must maintain

The Massachusetts AFL-CIO looks forward to working with the Commission as discussions around this important issue continue.



Our Governors Message

“Candidly I am not that interested in the total health care expenditures as an end in itself. I care what people are actually experiencing. How much of their take home pay is going to Health Care... or a family’s ability to meet their other household needs.”

“I am interested in completing the vision of health care in Massachusetts; accessible, high quality, affordable care for everyone. That is the public interest and government’s job is to serve the public's interest.”

Governor Deval Patrick, Greater Boston Chamber of Commerce ,
May 15, 2012